

Attachment 9 Past Performance-Back up Document: Single Audit

**INLAND EMPIRE UTILITIES AGENCY**  
**SINGLE AUDIT OF FEDERALLY ASSISTED**  
**GRANT PROGRAMS**

**JUNE 30, 2011**

INLAND EMPIRE UTILITIES AGENCY

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Inland Empire Utilities Agency  
Chino, California

We have audited the basic financial statements of the Inland Empire Utilities Agency (the Agency) as of and for the year ended June 30, 2011 and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

## Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not design to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding Number 2011-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Agency's Board of Directors, others within the Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*White Nelson Duhl Erans LLP*

November 30, 2011  
Irvine, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR  
A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Inland Empire Utilities Agency  
Chino, California

Compliance

We have audited the compliance of the Inland Empire Utilities Agency (the Agency) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2011. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Agency's Board of Directors, others within the Agency, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*White Nelson Dierl Evans LLP*

November 30, 2011  
Irvine, California



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2011

Federal Grantor/Pass - Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grant Identification Number	Federal Expenditures
<u>United States Department of the Interior</u>			
Direct Assistance			
ARRA - Water Reclamation and Reuse Program - North East Projects	15.504	R10AC35R16	\$ 1,598,152
ARRA - Water Reclamation and Reuse Program - North West Projects	15.504	R10AC35R17	3,407,089
Subtotal			5,005,241
Water Conservation Field Service Program	15.530	R09AP35261	30,000
Total United States Department of the Interior			5,035,241
<u>United States Environmental Protection Agency</u>			
Passed through the California State Water Resources Control Board:			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	C-06-5176-110	362,034
	66.458	C-06-5176-120	1,682,872
	66.458	C-06-5176-130	1,228,311
	66.458	C-06-5176-140	1,074,947
	66.458	C-06-5327-110	8,403,530
Subtotal			12,751,694
ARRA - Capitalization Grants for Clean Water State Revolving Funds,	66.458	C-06-6956-110	618,648
Principal Forgiveness Loans	66.458	C-06-6959-110	55,533
	66.458	C-06-6960-110	717,709
Subtotal			1,391,890
Total United States Environmental Protection Agency			14,143,584
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 19,178,825</u>

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (page 6).



# INLAND EMPIRE UTILITIES AGENCY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2011

### 1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal financial assistance programs of the Inland Empire Utilities Agency (the Agency). The Agency's reporting entity is defined in Note 1 of the notes to the Agency's financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the Agency are included in the accompanying schedule.

### 2. BASIS OF ACCOUNTING:

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures reported include any property or equipment acquisitions incurred under the federal program in the fiscal year.

### 3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the Agency's Comprehensive Annual Financial Report except for the Capitalization Grants for Clean Water State Revolving Funds. For fiscal year ended June 30, 2010, the expenditures of Federal Awards were reported on the modified accrual basis of accounting. As a result, expenditures incurred totaling \$2,126,926 were not reported in fiscal year ended June 30, 2010. These expenditures are included in the accompanying Schedule of Expenditures of Federal Awards.

### 4. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (page 5).

INLAND EMPIRE UTILITIES AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2011

1. Summary of Auditors' Results:

- a. The auditors' report expresses an unqualified opinion on the financial statements of the Agency.
- b. One significant deficiency (Finding 2011-01) in internal control was disclosed during the audit of the financial statements.
- c. No instances of noncompliance material to financial statements of the Agency, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
- d. No instances of significant deficiencies in internal control over major federal award programs were disclosed during the audit.
- e. The auditors' report on compliance for the major federal award program of the Agency expresses an unqualified opinion on all major federal programs.
- f. There were no findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- g. The threshold used for distinguishing between type A and type B programs was \$575,365.
- h. The program tested as a major program was:  
  
ARRA - Capitalization Grants for Clean Water State Revolving Funds - CFDA No. 66.458  
ARRA - Water Reclamation and Reuse Program - North East Projects - CFDA No. 15.504
- i. The Agency qualified as a low risk auditee.

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (page 5).

INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2010

2. Findings Relating to Financial Statements:

SIGNIFICANT DEFICIENCY

Finding Number 2011-01

Criteria

Management should review the status of Construction-in-Progress to identify closed projects for financial reporting.

Condition

We noted that the Agency had a number of capital projects that have been completed but have not been closed in the system. Total cost of the projects that should have been closed is approximately \$7.9 million.

Recommendation

We recommend that the Agency review the status of Construction-in-Progress projects on an annual basis and close any completed projects.

Management Response

Before the implementation of the Agency's Enterprise Resource Planning (ERP) system, the practice in project closure had been consistent to leave the capital project open, after completion for at least one year to support the recording of any close-out and warranty related work. The ERP system allows for the closure of selective phases within the project, leaving only the needed phases open to track close-out and warranty work after completion. We acknowledge the auditors' finding and have since closed these projects. We will examine our business process of reviewing construction in progress to continue to ensure timely closure of projects.

3. Findings and Questioned Costs Relating to Major Federal Awards:

There were no findings or questioned costs for the year ended June 30, 2011.

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (page 5).

INLAND EMPIRE UTILITIES AGENCY  
SUMMARY OF PRIOR YEAR FINDINGS

For the year ended June 30, 2011

No findings in year ended June 30, 2010.

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (page 5).